



devon **audit** partnership

## Draft Internal Audit Report

Follow Up Report on  
Areas Requiring  
Improvement

Torbay Council

*August 2014*

**OFFICIAL**



**Auditing for achievement**

## **Devon Audit Partnership**

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The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk).

## **Confidentiality and Disclosure Clause**

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This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

## **Introduction**

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At the June Audit committee members were provided with the Annual Internal Audit report for the Council. Appendix 4 of that report provided a summary of the audits undertaken during 2013/14, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was been provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvement required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

Members discussed and accepted the report; however, members at the other partner organisations of the Devon Audit Partnership have found it beneficial to receive a report on progress on the “improvement required” areas highlighted in Appendix 4 to the report.

As part of adding value and to ensure a consistent service across all partners, Devon Audit Partnership has completed follow up reviews to provide updated assurance to members. The results from this process are contained in this report at Appendix A.

## **Assurance Statement**

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Our assurance opinion remains as reported in our Annual Audit Report 2013/14. However, it should be recognised that there is potential for this assurance opinion to be adversely affected should the lack of progress made against certain individual audit management action plans continue.

## **Progress Impact Assessment**

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The progress made in the majority of areas means the previously identified risks are being minimised or mitigated where appropriate. However the limited progress made in certain action plans means a number of the risks previously identified and highlighted to management continue to remain.

In particular there remain three areas where progress has been limited:

- Risk Management and Risk Register;
- Data Security, BCP, Disaster Recovery (ICT Continuity)

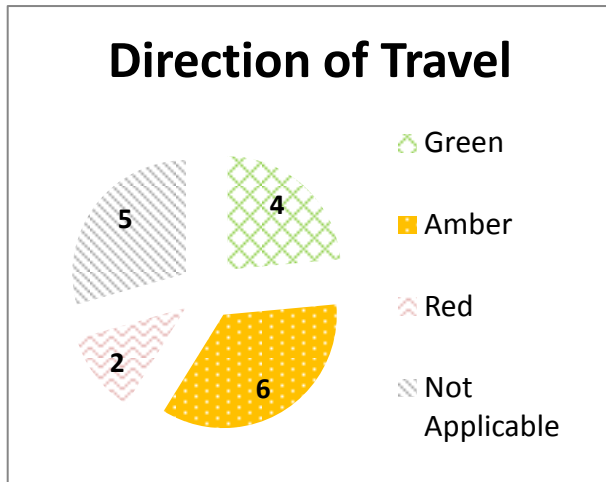
These are key to strategic and operational change in the coming months and in principle may impact the success of mitigation of wider strategic risks.

In addition, where the agreed actions are set for future dates and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

This follow up activity was an opportunity to facilitate review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation’s strategic management.

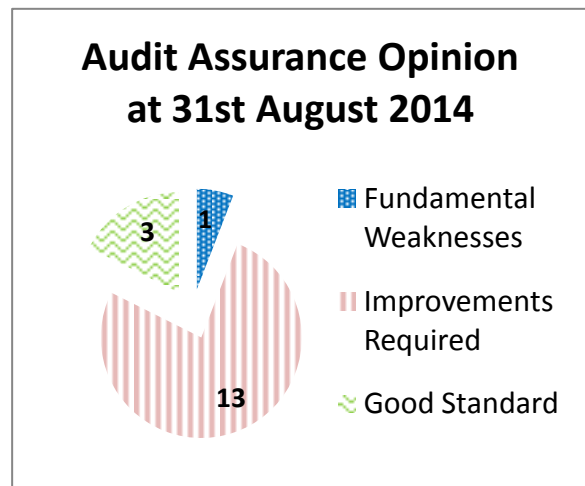
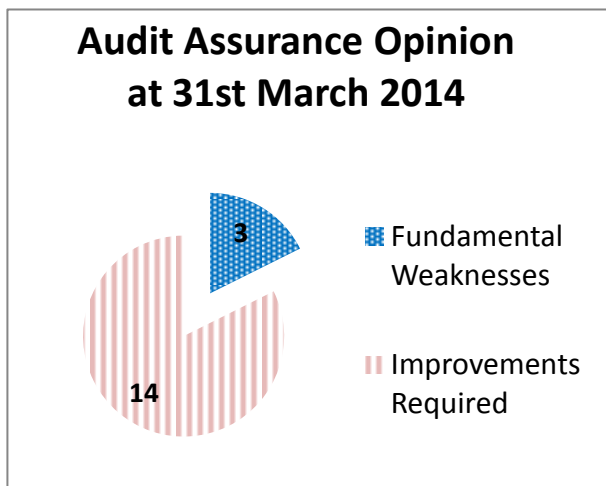
## Progress

Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken. It should be noted that a small proportion of the audits were not followed up due to the timing being inappropriate linked to the timing of the agreement to the action plan for the original reports, hence in these instances the original assurance opinion remains.



### Direction of Travel Key

**Green** – action plan implemented or being implemented within agreed timescales;  
**Amber** – implementation of action plan not complete in all areas or overdue for key risks;  
**Red** – implementation of action plan not complete and we are aware progress on key risks is not being made.  
**N/A** – follow up not appropriate at this time / opportunity for progress has been limited



## Internal Audit Coverage and Results

Overall we can report that for the majority of audits progress is being made against the agreed recommendations following our initial audit and this is shown in the direction of travel chart above and in Appendix A of this report. A significant number of opinions remain unchanged at this time although this does not in all cases reflect lack of action.

It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations

have been completed, but this is as expected.

Some agreed actions have not been implemented for a variety of reasons including strategic and operational changes in the service area and the need to prioritise resource in other directions. We shall work with management in determining revised implementation dates to ensure that actions are taken as promptly as is possible to address the risks identified.

During our initial audit work we have made reference to areas where risk exists; however in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk, and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

Appendix A of this report sets out the audits at the end of 2013/14 which were identified as 'improvements required' or 'fundamental weaknesses'. The appendix shows the current (updated) assurance opinion following our follow up work, and a 'direction of travel'. We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

## **Annual Governance Statement**

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The conclusions of this report provide further internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

These should be considered along with the conclusions from the Annual Audit Report 2013-14 presented to the Committee in June 2014.

## **Process**

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For each service area where an overall audit opinion of "improvements required" was provided at the end of 2013/14 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For recommendations of "low" priority we required written confirmation that the action had been enacted upon, or an update on the progress being made.

For "medium" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

For "high" priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified, and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work

## Appendix A

## Summary of Audit Follow and Findings 2013-14



### Risk Assessment Key



LARR – Local Authority Risk Register score Impact x Likelihood = Total & Level  
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management  
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available

### Direction of Travel - Key



Green – action plan implemented or being implemented within agreed timescales;  
 Amber – implementation of action plan not complete in all areas or overdue for key risks;  
 Red – implementation of action plan not complete and we are aware progress on key risks is not being made.



\* report recently issued, opportunity for progress has been limited


Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
<b>Material Systems</b>					
UKPMS System	ANA - Medium	Improvements required	Improvements required	<p>Progress against the agreed recommendations has not yet been undertaken, as the Authority have been awaiting availability of the 2014-15 Accounting Code of Practice, which is expected to confirm adoption of the Code of Practice on Transport Infrastructure Assets for the 2016-17 accounts. Now this is available, relevant officers have discussed an outline plan of action, which we understand will incorporate the recommendations made in the original audit report.</p> <p>As the majority of the relevant work is planned for Autumn this year, we are currently unable to revise our audit opinion, as the level of risk has not yet been reduced.</p>	
Discretionary Social Fund (Crisis Support)	ANA - High	Improvements Required	Improvements Required	<p>Due to the expected cessation of the scheme at the end of 2014-15, there has been limited action against the recommendations made. However the organisation has since been notified that previous underspends will be used to carry forward the scheme into future years, hence Management will now revisit the recommendations and agreed action plan with the aim of completing it by October 2014.</p>	




Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
Council Tax and NNDR (2012-13)	ANA - Medium	Improvements Required	Improvements Required	Completion of the 2013-14 annual audit was delayed. The audit covering the 2013-14 period is nearing completion and includes the follow up of the 2012-13 recommendations which will be reported in our six monthly performance outturn report. Many of the issues reported in 2012-13 remain outstanding in terms of full completion, however it is noted that the agreed actions have commenced.	
Payroll (2012-13)	ANA - Critical	Improvements Required	Improvements Required	The 2013-14 annual audit was deferred to 2014-15 at the clients request due to the Payroll System Implementation Project. The Audit covering the 2013-14 period is currently ongoing and includes the follow up of the 2012-13 recommendations. The results of this audit will be reported in our six monthly performance outturn report.	N/A
Creditors	ANA - High	Improvements Required	Improvements Required	Progress against some of the agreed recommendations has taken place and some are in progress. We note that a majority of recommendations remain to be completed and in a small number of instances the recommendations are either not yet due for completion or the risk has been accepted by Management. Management have provided assurance that the relevant issues will be addressed in the near future.	
Corporate Debt	ANA - High	Improvements Required	Improvements Required	The report was in draft at the time of the 2013-14 annual report. It has now been issued in final and a management action plan agreed. Corporate Debt is subject to an annual audit and therefore the status of individual recommendations against the agreed actions will be followed up then. The results of this audit will be reported in our six monthly performance outturn report.	N/A *



Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
<b>IT audit</b>					
Data Security, BCP, Disaster Recovery (ICT Continuity)	ANA - High	Improvements Required	Improvements Required	Progress against the agreed recommendations has not been undertaken as originally expected, however there is some integration work required with the revised Risk Management methodology and therefore delays have in part been linked to the further development and integration of Risk Management into the SLT framework. The relevant Executive Heads have scheduled a meeting with Audit to facilitate progression of the recommendations.	
<b>Other</b>					
Risk Management and Risk Register	ANA - High	Improvements Required	Improvements Required	The report was in draft at the time of the 2013-14 annual report. It has now been issued in final and a management action plan agreed. The follow up has identified that there has been limited action taken against the management action plan as the intention is to integrate this into the organisation. The relevant Executive Heads have scheduled a meeting to facilitate progression of the recommendations with a view that Risk Management becomes integrated into the SLT Management framework.	

Public Health					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
Health and Safety	ANA - Low	Improvements Required	Good Standard	Significant progress has been made against the agreed actions, with a majority having been implemented or in progress. The primary concerns originally identified within the audit were in relation to a lack of H&S Strategy within the organisation, and a lack of enforcement and monitoring regarding departmental compliance with H&S policy and training requirements. A number of recommendations have been addressed to minimise the associated risks, and completion of those actions that remain in progress will further increase the control framework and provide further mitigation.	
Food Safety, Health & Welfare, Licensing, & Trading Standards	ANA - Medium	Fundamental Weaknesses	Fundamental Weaknesses	<p>It is pleasing to note that significant progress has been made against the agreed actions, with a majority having been either implemented fully or partially. The overall assurance opinion remains as Fundamental Weaknesses due to the nature of the risk of not achieving 100% food safety inspection.</p> <p>It is acknowledged that inspection levels have increased and that the high risk (category A and B) inspections are being carried out as required. There has been an increase in Category C inspections and processes are in place to provide interventions on new food premises although there is a backlog. Work is continuing in these areas with the intention that 100% inspection may be achieved by the end of the 2014-15 financial year, assuming the necessary resource levels are made available.</p>	 *

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
Business Improvement Districts	ANA - Medium	Improvements Required	Improvements Required	Due to a current review and operational changes in the BID company it is not appropriate to follow up this audit at this time. A follow up audit will be programmed in during the last six months of 2014-15.	N/A
TOR2 Contract Monitoring	ANA - High	Improvements Required	Improvements Required	The report had only just been issued in final at the time of the 2013-14 annual report. Dates for action to be completed are in the future and thus it is was not appropriate to follow up status at this time.  The intended Internal Audit activity in 2014-15 includes a continued oversight of the Council's management / monitoring of the TOR2 contract enabling progress against the agreed actions to be subject to a continuous follow up process.	N/A*
Torbay Coast and Countryside Trust	ANA - Medium	Improvements Required	Good Standard	Significant progress has been made in implementing the recommendations of the draft report, and a business development plan is in the process of finalisation taking into account anticipated future reduced Council funding. The progress made has been reflected in change of the assurance opinion to Good Standard in the Final version of the report.	
Parking Services	ANA - High	Improvements Required	Improvements Required	The report was in draft at the time of the 2013-14 annual report. It has recently been issued in final and a management action plan agreed.	N/A*

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
Fostering	ANA - Medium Risk	Improvements Required	Good Standard	The majority of recommendations made have been fully implemented resulting in an updated audit assurance opinion of Good Standard.	
Parkfield (My Place)	ANA - High Risk	Fundamental Weaknesses	Improvements Required	Many of the recommendations made have been actioned or are no longer applicable due to the change in emphasis in the use of Parkfield.	
Children's Services External Contracts	ANA - High Risk	Fundamental Weaknesses	Improvements Required	The report was in draft at the time of the 2013-14 annual report. It has now been issued as a final report further to a meeting in May 2014 and a management action plan agreed. Discussion in early August has confirmed completion of the action plan is substantially underway.	

## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

## Confidentiality under the National Protective Marking Scheme

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Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.